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Banking in Nebraska: Part 3
The Agricultural Credit Markets

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Introduction

Agricultural finance has undergone fundamental changes in the last decade as the farm economy struggled amid the pressures of rising interest rates, lower commodity prices, and fluctuating land costs. An earlier article showed the impact of agricultural lending on Nebraska commercial banks. The impact of agricultural lending, however, extends beyond the commercial banking system.

Agricultural lending involves a mix of public and private institutional funds. The principal institutions involved in ag lending are the Farm Credit System, the Farmers Home Bank, commercial banks, and insurance companies. Although the dominant holder of real estate debt for Nebraska farmers is still the Farm Credit System, the mix has altered significantly over the last decade. At the beginning of the 1980s, farm debt was rising rapidly. The dominant supplier of agricultural credit was the Farm Credit System. By the close of the decade, the Farm Credit System had been restructured and debt levels reduced, resulting in commercial banks assuming a greater share of farm debt.

Figure 1 shows the contribution of the major agricultural credit institutions to total farm debt in Nebraska since 1974. For most categories, farm lending peaked around 1983 and then dropped sharply. Commercial bank lending did not fall as sharply as Farm Credit System lending, however, and has increased in recent years. Each bar in Figure 1 shows total farm debt. For farm real estate debt alone, the share of commercial bank lending to the agricultural sector has risen steadily throughout the 1980s as Farm Credit System lending has declined.

The Farm Credit System

The Farm Credit System (FCS) is a network of cooperative institutions whose objective is obtaining low cost loans for the agricultural sector. The FCS is administered by the Farm Credit Administration, an independent government agency, through a system of twelve Farm Credit Districts.

The FCS prospered in the 1970s when real estate values rose rapidly. Farmers found that with rising farm income expectations and rising farm land values they could profit by increasing debt levels. The logic was that high rates of inflation would cause the value of debt to depreciate in real terms. But the situation did not last. With

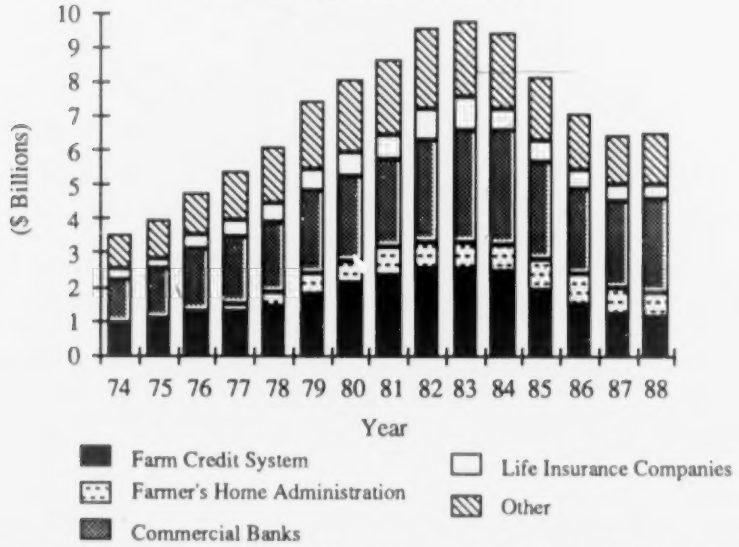
State Economic Scoreboard

Change from same month one year ago.
See Review and Outlook on page 8 for more details.

	State	Metro+	Nonmetro
Motor Vehicle Sales (October) Constant $	↑ 7.1%	↑ 13.7%	↑ 1.7%
Nonmotor Vehicle Sales (October) Constant $	↑ 1.3%	↓ -1.7%	↑ 4.5%
Building Activity (October) Constant $	↑ 18.7%	↑ 14.1%	↑ 24.8%
Employment (December)	↑ 0.4%	↑ 0.1%	↑ 0.7%
Unemployment Rate* (December)	↓ 2.7%	↓ 2.4%	↓ 3.0%

+Omaha and Lincoln. *Unemployment is this month's rate, not a percent change from year ago.

Figure 1
Nebraska Farm Debt
(Including Operator Households)



the collapse of commodity prices, declining land values, and reductions in the rate of inflation and the interest rates, the FCS was confronted with a high debt burden.

Further exacerbating the problem for the FCS was the way FCS priced its loans. Loans were priced according to the average rate paid on the FCS's total portfolio of bonds and notes outstanding. Those prices did not correspond to the costs the system had to pay at the time the loan was made. Furthermore, the FCS traditionally had valued land on the basis of current prices of output. In a highly cyclical market such as the agricultural market, such a policy further distorts the cyclical variations in income. A better policy would be to value land based on historical long-term prices and output.

Following losses of $4.6 billion between 1984 and 1987, a federal bail-out provided $4 billion to the Farm Credit System. Although FCS institutions achieved a net income of $704 million in 1988, that figure was only possible with the aid of a $680 million reversal in provisions for loan losses.

Important to the Nebraska farm economy were the financial difficulties experienced by the Omaha Federal Intermediate Credit Bank (FICB) during mid-1984 to mid-1985. These difficulties were a result of the downturn in the farm economy in the states served by the Omaha FICB (Nebraska, Iowa, South Dakota, and Wyoming). In October 1985, the Omaha FICB received a $75 million payment from the FCS. In addition, it was agreed that the FCS would purchase around $240 million of nonperforming loans from the Omaha FICB.

FCS lending for Nebraska real estate fell around 7 percent in 1988, compared with a decline of nearly 20 percent in 1987. These decreases were generally in line with those at the national level.

Farmers Home Administration

As the lender of last resort, the Farmers Home Administration (FmHA) loan portfolio is dominated by relatively high risk loans.

Prior to 1985, the FmHA exercised a policy of extreme loan foreclosure forbearance. Therefore, there were very low farm loan losses reported by the agency. Foreclosures did increase in 1986 and 1987. The agency was unable to foreclose on nonperforming loans, however, because it was restricted by both Congress and the courts. Consequently, the FmHA reported low loan losses as they held an increasing number of delinquent loans.

The FmHA is still under considerable financial pressure. A recent survey by the USDA Economic Research Service showed that commercial banks have increased their farm lending substantially due to their participation in the farm loan guarantee programs of the Farmers Home Administration. Under the loan guarantee programs, FmHA pledges to repay up to 90 percent of the outstanding principal and accrued interest on FmHA-approved, privately extended loans that default.

Life Insurance Companies

Although life insurance companies still hold a significant portion of farm debt, they have reduced their share of the farm loan market in recent years in an attempt to deal with problem farm loans. Until recently, few life insurance companies were pursuing new farm loan business.

There is some evidence, however, that the period of retrenchment may be coming to a close. The farm lending portfolio of life insurance companies is now in a healthier position, allowing some life insurance companies cautiously to extend credit to high quality farm borrowers.

Commercial Banks

Agricultural banks are defined as those commercial banks with greater than 25 percent of their lending portfolio in agricultural loans. With the current improvement in the performance of the farm economy, commercial banks are able to assume increased levels of agricultural debt.

An additional factor contributing to the increase in commercial bank lending has been their participation in the farm loan guarantee programs of the Farmers Home Administration.

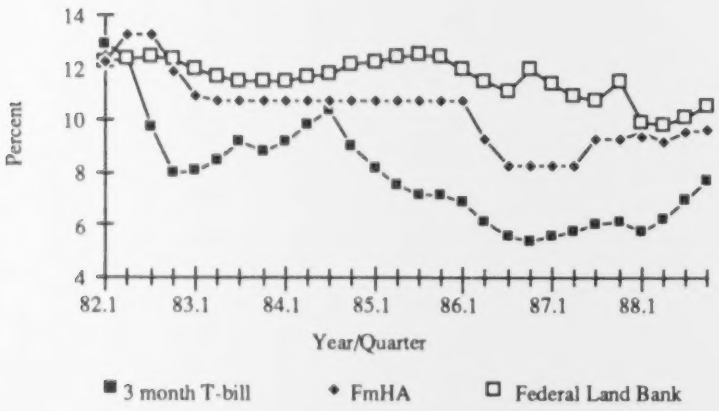
While the value of total farm real estate debt decreased more than 28 percent from 1983 through 1988, commercial bank ag real estate debt rose 233 percent during the same period for Nebraska.

For the United States, commercial banks continue to dominate the market for nonreal estate debt. Nonreal estate debt provides financing for other farm capital items such as farm equipment. At the end of 1988, commercial banks contributed 63 percent of Nebraska nonreal estate lending and 45 percent of nonreal estate lending for the United States as a whole.

Economic Factors

Volatile interest rates and declining farm real estate values may have been the most significant factors affecting agricultural credit in the 1980s. The Farm Credit System in particular suffered because of certain institutional factors. Because the

Figure 2
Agricultural Interest Rates



FCS is a cooperative and its owners are its borrowers, the system traditionally tried to charge the lowest rate possible on loans. Its low interest rate policy allowed the FCS to expand more rapidly than its competitors in the 1970s. Also, because the FCS is restricted in its lending activities to agriculture, it is especially vulnerable to changes in the performance of the agricultural sector. Furthermore, a maturity imbalance has created difficulties when interest rates are volatile. Typically, the Federal Land Banks issue mortgages with terms of 20 years or more. In contrast, bonds sold by the FCS usually have maturities of only three to seven years. Consequently, the FCS has been exposed to significant interest rate risk. Figure 2 illustrates the extent of the interest rate shifts that occurred during the 1980s. The federal credit agencies may not have adjusted their rates quickly enough to reflect changing market conditions.

The Agricultural Credit Act of 1987

With the Agricultural Credit Act of 1987, the FmHA was given the authority to foreclose delinquent loans if the loan cannot be restructured.

The Agricultural Credit Act of 1987 provided relief for the FCS by supplying up to $4 billion in direct financial assistance. Furthermore, the Farm Credit Act of 1987 restructured the FCS. Merging operations within FCS provided one stop servicing of borrowers' long- and short-term credit needs. In addition, further mergers within the FCS were intended to reduce the system's overhead costs.

Another change provided by the Agricultural Credit Act of 1987 was a bill of rights for farmers borrowing from the FCS and FmHA. The legislation detailed procedures these institutions must follow in dealing with troubled loans.

Farmer Mac

An important development for suppliers of agricultural credit has been the establishment of the new Farmer Mac secondary market for farm mortgage loans under the Agricultural Credit Act of 1987. Farm mortgage sales on the secondary market were to provide lenders with the liquidity to make additional investments. The additional liquidity should make the farm mortgage market more competitive and, therefore, provide cheaper financing for farmers.

It is too early to judge the impact of Farmer Mac on the agricultural credit markets. Although an offering of Farmer Mac stock was completed in December 1988, the final standards for qualifying loans to be sold through Farmer Mac have yet to be determined. It is likely that the Farmer Mac system will take two or three years to reach full operation. It is clear, however, that Farmer Mac will offer new opportunities for agricultural lending institutions. Lenders participating in the secondary market can sell 90 percent of the value of loans that meet Farmer Mac's underwriting standards.

Commercial banks are often reluctant to offer many farm loans because of the large principal required. These banks may benefit from Farmer Mac, as it will give lenders the opportunity to recover most of the principal.

Similarly, Farmer Mac will provide life insurance companies with a mechanism providing high quality loans without having to pay a field force to sell and serve the loans. Also, despite the possibility of increased competition, Farmer Mac will assist the FCS by helping build capital by selling some of its loans.

Implications for Nebraska

Nebraska's links to the farm economy are inescapable. The financial position of Nebraska's farms has improved markedly over the past few years. Despite the presence of the drought, Nebraska farm income rose in 1988, and debt fell. Other states hit harder by the drought experienced a greater debt burden.

Table 1 shows the distribution of Nebraska's farm debt. Commercial banks now hold the major portion of the state's farm debt, with most debt concentrated in the form of nonreal estate debt.

Table 1
Distribution of Nebraska Farm Debt, by Lender
December 31, 1988

Lender	Type of Debt: Real Estate (Percent of Total)	Nonreal Estate (Percent of Total)	Total
Commercial Banks	9.18	32.94	42.12
Farm Credit System			
Federal Land Banks	15.31		15.31
Production Credit Associations		1.62	1.62
Farmers Home Administration	6.21	5.36	11.51
Life Insurance Companies	6.67		6.67
Individuals and Others	10.43	12.26	22.69
Commodity Credit Corporation	0.02		0.02
Total	47.80	52.20	100.00

Nebraska's Farm Credit System debt is administered by the Farm Credit Bank of Omaha (FCBO), Federal Land Bank Association of the Midlands (FLBAM), and the Production Credit Association of the Midlands (PCAM).

For the year ended December 31, 1988, the Farm Credit Bank of Omaha and related associations achieved a surplus in excess of $176 million, a 4 percent return on average assets. The positive return contrasts to a $105 million loss in 1987. Even though interest income was lower, interest expense fell dramatically, leading to a return to profitability. Furthermore, a $271 million reversal in the provision for loan losses allowed made a major contribution to reported profitability. The reversal in the provision for loan losses was possible due to the backing of the Farm Credit Administration.

Outlook

The outlook for agricultural lending has brightened considerably in recent years. Farm debt reached alarming levels in the mid-1980s as the farm economy was afflicted with deteriorating commodity prices. The level of debt has been reduced through an improvement in the farm economy and a restructuring of the agricultural credit system. These structural and institutional changes within the agricultural credit sector have resulted in commercial banks becoming the leading farm lender, holding over one-third of total farm debt.

The outlook for the FCS depends not only on the agricultural economy, but also on the structure of the FCS. With the FCS now holding only approximately one-fourth of total farm debt, there have been moves from the FCS to expand its role in agricultural finance to compete directly with the services of commercial banks. Commercial banks have resisted these moves, claiming that they would be unable to compete fairly with the FCS because the FCS is government owned.

The improvement in the farm economy and the increase in federal assistance have provided some stability to the financial condition of the FCS. The Farm Credit System, despite restructuring, still remains vulnerable to wide swings in agricultural income. The introduction of Farmer Mac should provide further stimulus to competition in the ag credit markets.

Toward Fuel Efficiency

According to the *Monthly Energy Review*, a publication of the Energy Information Administration, U.S. Department of Energy, the average amount of fuel consumed per passenger car in the U.S. has declined about 30 percent during the last 20 years. In 1968, the average fuel consumption per car was 731 gallons. This figure increased to 785 gallons by 1972. Beginning in 1972, the average has declined steadily to an estimated 507 gallons in 1988.

The *Monthly Energy Review* also provides statistics about the average miles travelled per car per year. Average net consumption, use, and efficiency are shown below for the period 1967 through 1988. Passenger car efficiency improved from 14.07 miles per gallon at the beginning of the period to 19.95 miles per gallon in 1988.

Passenger Car Efficiency

Year	Average Fuel Consumed per Car (gallons)	Average Miles Traveled per Car (miles)	Average Miles Traveled per Gallon of of Fuel Consumed (mpg)
1967	715	10,060	14.07
1968	731	10,144	13.87
1969	746	10,158	13.62
1970	760	10,272	13.52
1971	770	10,422	13.54
1972	785	10,521	13.40
1973	771	10,256	13.30
1974	716	9,606	13.42
1975	716	9,690	13.52
1976	723	9.785	13.53
1977	716	9,879	13.80
1978	701	9.835	14.04
1979	653	9,403	14.41
1980	591	9,141	15.46
1981	576	9,186	15.94
1982	566	9,428	16.65
1983	553	9,475	17.14
1984	536	9,558	17.83
1985	525	9,560	18.20
1986	526	9,608	18.27
1987	514	9.878	19.20
1988*	507	10,119	19.95

*Preliminary data

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Nebraska Television--Forty Years Old and Growing

Louis E. Jeffries, Wesley College

Introduction

In 40 years Nebraska television has grown to include 15 commercial stations, nine educational stations and satellite stations, and 177 cable TV systems. Today, more than 98 percent of Nebraska's households have television sets.

Omaha is the largest market in the state, according to the 1986-87 Arbitron report. Nationally ranked as 64th, this market serves more than 354,000 TV households.

Lincoln, Hastings, Kearney, and Grand Island form the state's second largest television market, ranked 92nd nationally. More than 257,000 households are contained in this market.

Cable television covers 247 communities in the state. By April 1, 1988, the Omaha market had nearly 71,000 basic cable subscribers. The Lincoln market counted almost 62,000 subscribers to basic cable service, according to the *Television and Cable Factbook*.

Nebraska's television industry accounts for an average of 22 percent of all advertising expenditures in the state. Net television revenues in Omaha and Lincoln for 1987 totalled nearly $53 million.

Early History of Nebraska Television

Nebraska's television industry was born in August 1949, when two Omaha stations signed on the air. Intense competition began, which continues to characterize the television industry in Omaha and throughout Nebraska. Two individuals largely responsible for introducing television to Nebraska are John J. Gillin, Jr. and Ed May, Sr.

Gillin, Omaha native and general manager (later president) of the WOW radio station, is credited with bringing television to the Midwest in 1949 with the founding of WOW-TV. The station began transmitting programming directly from the network via the new coaxial cable a short time later. May, a radio veteran with an Iowa station, gambled on television and established KMTV. Nebraska television stations provided early on-the-job training for television personalities Johnny Carson, Floyd Kalber, and Tom Brokaw.

Television continued to grow in Nebraska. An Omaha ABC affiliate began operation in September 1957. The Omaha stations opened Lincoln news bureaus between 1976 and 1981. Other stations gradually were added in Lincoln and western Nebraska.

Nebraska was one of the first states to offer educational television. KUON, a Lincoln station, was founded in 1954. During the 1960s, public TV expanded to cover the entire state.

Recent Changes in Nebraska

The age of modern television emerged in 1962, when the Telstar I satellite was launched. Within hours, the satellite had bounced TV programs between the U.S. and Europe. The proliferation of satellite-fed programming accelerated in 1975 when Home Box Office began transmitting its pay TV programming by satellite.

The last group of first generation television pioneers, both in Nebraska and at the national networks, have disappeared in recent years. The last Nebraska broadcast pioneer departed when May sold KMTV in August 1986. The sale ended his 37 year presence in Omaha television.

More significant changes in Nebraska's commercial television industry occurred in 1985 and 1986 than in the preceding 23 years.

The first Omaha independent station, KPTM, began broadcasts in April 1986, the first new commercial television station in Omaha since 1957. Until that time, the Omaha-Lincoln market was the largest television market in the country without a local independent station.

Within four months, the new station became the country's top rated prime time independent television station in a mixed market. A mixed market refers to one in which both UHF and VHF stations compete. The influence of an aggressive and successful new competitor invigorated the Omaha market.

In western Nebraska, television became available in 1955. Previously, only low quality television reception from Cheyenne, Wyoming had been possible for area residents. KSTF in Scottsbluff provides programming to about nine counties in Nebraska's Panhandle.

The Scottsbluff area currently has only two commercial television stations. The third network is available via cable or satellite dish. The Panhandle has heavy cable TV penetration, carrying the Denver stations. Backyard satellite dishes in the rural areas have proliferated.

Regulatory Changes and Technological Innovation

At the national level, corporate control at the three networks has passed to a new generation of executive personnel concerned about cost control and fiscal responsibility. In 1985, corporate control changed at all three networks.

A number of factors can explain these changes. Network leadership had aged. A lack of strong successors resulted in frequent executive turnover and lack of stability for the future.

Deregulation by the FCC precipitated major changes in the broadcast industry, including more liberal programming content and a greater number of commercial spots allowed per program.

An FCC rule barring rapid buying and selling of station licenses for profit was abolished, leading to a rapid turnover in station ownership. In addition, a single group of owners now can own 12 stations, rather than the previous limit of seven stations, providing the coverage does not exceed 25 percent nationally.

In Nebraska many affiliate stations have been sold in recent years as their open market value rose. Most were purchased by large groups, who apparently can achieve economies of scale with multiple station ownership.

Although Nebraska residents founded the state's television industry, most of Nebraska's commercial stations now are owned by out-of-state individuals or groups. According to a survey conducted by Michael Hilt, University of Nebraska-Omaha professor, only one of six stations responding was owned by a Nebraskan residing in the state.

Television programming alternatives also have proliferated in the past five years, fragmenting the television audience. The combined prime time market share of the three major networks has dropped from 91 percent in 1980 to 67.2 percent in the 1988-1989 season. This market share decline is likely to continue, leveling at about 63 percent to 65 percent by 1995.

Industry trends contributing to this decline include a continuing increase in the number of cable subscribers and growing public television viewership. The number of independent TV stations has increased, and their ratings have risen.

Videocassette recorder sales, representing another entertainment alternative, have risen from zero to over 36 million in recent years. Feature film rentals for VCRs have cut ratings potential for these films on commercial television, resulting in an increase in made-for-TV films and original programming on independent stations.

Backyard satellite dishes have appeared in rural areas such as Nebraska's central and Panhandle areas. This technology, virtually unknown ten years ago, is now available in more than two million homes in the U.S.

Other technological advances of the last ten years have made these alternative programming forms possible. Programming now can be transmitted via satellite, allowing broadcast of timely syndicated shows, daytime talk shows, and regional programming.

Future Effects of Changes

Both networks and local stations face added competition in bidding for programs, further squeezing profits. With an increasingly fragmented viewing audience, the television industry is forced to reduce expenses and achieve other economies to maximize profits.

Advertisers have other avenues for their commercials. As a result, the three networks and local affiliates no longer can expect double digit advertising rate increases to cover rising costs.

An example of cost cutting efforts is in the current proliferation of weekly news magazine programs. These programs are much cheaper to produce than the typical hourly programs they replace.

Cable stations show profits by producing cheaper programming and drawing revenues from both the cable systems carrying their programming and from the commercial spots they broadcast.

Another consequence of recent changes has been the general disruption of viewer habits. Today, an interruption of these habits can cause viewers to try alternative programming, generating further changes in network market share and profits.

The future of television broadcasting, both nationally and in Nebraska, seems to suggest an industry going in many directions, according to some in the state's television industry.

With satellites and other new technologies being developed, more alternative programming sources and choices will be available, all of which could threaten local stations by fragmenting their audiences. Special ad hoc networks could be formed to broadcast special events.

Networks may tend to program fewer hours, possibly striving for better quality. The traditional three networks may become simply another program service for local stations.

The three major networks have maintained their policy to date of compensating affiliates for carrying network shows and commercials. This key difference between cable and networks accounts for much of cable's attractive profit structure and future potential. Recent developments have indicated that the network practice of compensation to affiliates may have an uncertain future. Networks most likely will reduce or eliminate compensation on programming their affiliates must carry. But this reduction may be balanced by additional spots for local ads.

Should network compensation to the affiliates be altered, local stations may refuse to carry network shows or may preempt the network with alternative programming. In the future, a different kind of partnership between local stations and networks allowing local affiliates and independent stations to carry more first run programming may be formed.

Future technology includes high definition television, with sharper pictures, higher resolution, better color, and stereo sound. It may become possible for consumers to perform banking functions, retrieve information, and conduct other transactions without leaving home. Utilization of these services may reduce viewership of traditional television further.

The future of television promises diversity of choice, bringing greater risks to individual players as viewer loyalty is divided further.

Louis Jeffries is currently an assistant librarian at Wesley College. He previously has published in Business in Nebraska.

Patricia C. Dinslage of the Bureau of Business Research excerpted this article from a longer version.

Nebraska County Seat Facts

The Bureau of Census, U.S. Department of Commerce estimated that Nebraska's population was 1,602,000 on July 1, 1988. Of this total, 911,120 persons or 56.9 percent resided in towns designated as county seats in 91 Nebraska counties. (Harrisburg in Banner County and Tryon in McPherson County are not incorporated.) According to the 1980 census, Nebraska had a population of 1,569,825. County seats contained 891,299 individuals, 56.8 percent of the total.

During the 1980-1988 period, 20 of the 91 county seats gained population. Over the same period, 71 county seats declined in population.

County government often is headquartered in the largest town or city of the county. In 75 of the 91 Nebraska counties, the county seat was the most populous place. The county seat is the second largest incorporated place in 11 counties and the third largest incorporated place in two counties.

Omaha in Douglas County is the most populous county seat with 353,170 residents. Brewster in Blaine County is the smallest county seat with 30 residents.

Thirteen county seats in Nebraska have the same name (or a derivation of the couny name) as the county in which they are located.

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Status of Venture Capital in Nebraska

Raymond A. Marquardt,
UNL Agribusiness Program Director and Professor of Marketing
and
Diane L. Crawford, Research Technician

What is Venture Capital?

Venture capital may be defined as money supplied to businesses for endeavors in which both the risk and potential return are high. A business may be financed with venture capital during an early stage of development, during expansion, or at the point of acquisition or leveraged buyout.

Venture Capital in Nebraska

Nebraska's venture capital activity level is low. There are currently two small business investment companies (SBICs), one state-chartered quasipublic venture capital company, two venture capital networks, and three venture capital clubs in the state. The venture capital networks and clubs do not make investments, but provide a link to an informal source of financing.

A 1988 study by Samsel, Ball, and Marquardt found that the Midwest (Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, and Wisconsin) has the smallest representation of venture capital firms, 11.3 percent of the U.S. total. In comparison, New York has over 150 venture capital funds. (Use of these funds is not restricted to New York.)

The study also found that awareness of Nebraska's business climate is generally low among venture capitalists nationwide. These same venture capitalists also rated Nebraska low on the presence of local venture firms, the availability of good venture proposals, and the level of entrepreneurial activity in the state.

In 1985 Nebraska ranked 38th among 48 states in new business incorporations and 37th in patents issued, according to the Corporation for Enterprise Development.

The venture capital industry nationwide has been instrumental in fostering many economic development objectives:

* Job creation;
* Business creation;
* Economic diversification;
* Influx of money to business location;
* Capital availability for enterprises unlikely to be financed through conventional sources.

For example, two state-chartered venture capital entities in Massachusetts have created or retained over 5,000 jobs in that state since 1978. Many of the businesses providing these jobs would not have been started or expanded without the presence of a venture capital industry willing and able to extend equity financing to relatively high risk ventures. For these reasons, venture capital may be an economic development tool in Nebraska.

Meeting Nebraska's Needs

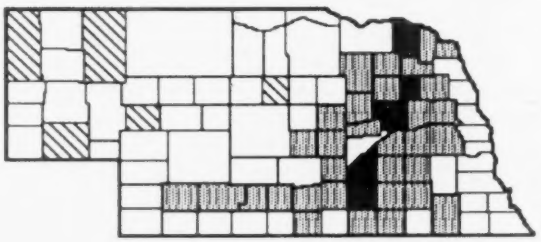
Nebraska's venture capital industry is the focus of various parties in the state concerned with economic development.

The Nebraska Research and Development Authority (NRDA), a nonprofit, state-funded, quasipublic venture capital organization, was formed in 1986 to meet the need for venture capital financing in the state. The NRDA is making investments in Nebraska businesses and providing education to potential entrepreneurs and venture capitalists. They have pro-

(continued on page 8)

Average Age of Nebraska Farmers

The average age of farm operators in Nebraska increased from 48.5 years in 1982 to 49.4 years in 1987, according to the *1987 Census of Agriculture*. In 37 counties, the average age of farm operators was below the state average. Fifty-six counties reported average ages equal to or above the state mean.



Average age of farm operator, Nebraska - 49.4 years

- Counties below state average
- Counties equal to or greater than state average
- Counties with highest average age
- Counties with lowest average age

The five counties with the highest and lowest average ages are:

Highest Average Age		Lowest Average Age	
Arthur	55.3 years	Platte	46.9 years
Cheyenne	54.2 years	Cedar	47.0 years
Loup	54.0 years	Clay	47.0 years
Sheridan	54.0 years	Stanton	47.1 years
Sioux	54.0 years	Hamilton	47.2 years

Counties reporting the lower average ages tend to concentrate two to three counties wide on either side of a line stretching from Dixon County to Thayer County. Such counties also are concentrated in the second tier of counties above the Nebraska-Kansas state line stretching from Hayes County to Gage County.

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posed the creation of a separate private fund to be financed initially through a no risk bond issue utilizing public pension fund monies. In addition, a pilot regional venture capital organization to be located in Norfolk is under discussion.

A group of bankers in Omaha is seeking the support of the Nebraska Bankers Association in raising money for the formation of a third SBIC.

Legislation to provide a tax credit for investors in certified venture capital companies has been drafted. Senator Don Wesely's LB577 is out of committee.

The Nebraska Bankers Association has funded several research grants to study the role of venture capital in Nebraska's economic development. Reports entitled "A Guide to Doing Business in Nebraska," "Perceptions Venture Capital Firms Have of Nebraska Projects," and "An Assessment of Venture Capital Delivery Mechanisms and Their Role in the Economic Development of Nebraska" have been completed. (Copies of these reports may be obtained by contacting Dr. Marquardt's office at 402/472-3156.)

The Nebraska Bankers Association recently has awarded another grant to study the need for additional capital delivery mechanisms in the state.

Several organizations and public officials, including the Department of Economic Development, state legislators, Nebraska Futures, Inc., the Nebraska Bankers Association, the State Chamber of Commerce, and representatives of the University of Nebraska, have held meetings to discuss the direction Nebraska should take in venture capital.

The Outlook for Nebraska

These groups are gathering information about venture capital, learning what actions have been taken in other states to employ venture capital as a tool in economic development, and assessing how successful these efforts have been.

Those who can influence the direction of venture capital in the state are aware that fostering managerial skills among business-oriented citizens and educating entrepreneurs and venture capitalists in the process of raising capital for new and growing enterprises are important.

The process of formulating programs, passing the necessary legislation, and implementing such programs takes time. It is clear that Nebraskans are learning the benefits of venture capital and taking positive steps toward activating this form of financing for the good of the state.

U.S. Agricultural Bank Failures

According to the *Agricultural Finance Databook* (fourth quarter 1989) published by the Federal Reserve Board, fewer agricultural banks failed during the first and third quarters of 1989 than during any quarter since early 1984. More than 60 agricultural banks failed annually in 1985, 1986, and 1987. In the first quarter of 1987 alone, 22 failures were noted.

Failures of Agricultural Banks*

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Total
1981	1	0	0	0	1
1982	2	3	3	3	11
1983	1	1	2	3	7
1984	3	7	10	12	32
1985	12	21	17	18	68
1986	14	14	21	16	65
1987	22	19	12	16	69
1988	11	6	12	7	36
1989	5	7	5		

*Data exclude banks assisted to prevent failure. Industrial banks and mutual savings banks also are excluded. Note that the term agricultural bank as defined by the Fed differs from the common definition used on page 2 of this issue. The Fed defines agricultural banks as those that have a proportion of farm loans (real estate plus nonreal estate) to total loans that is greater than the unweighted average of all banks. This average was 16.0 percent in June 1989.

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Review and Outlook

John S. Austin
Statistical Coordinator
Bureau of Business Research

National Outlook

The newly released fourth quarter GNP numbers verified the overall weakness in the national economy. Real GNP grew only 0.5 percent.

Growth in real consumption was near zero. Within the consumption sector, only the consumption of services grew, while consumption of durables and nondurables fell. Consumption of durables dropped 12.9 percent in the fourth quarter. All of that decrease can be attributed to a drop in automobile sales.

In the investment sector, decreases in nonresidential investment partially were offset by increases in the residential sector. There was a strong gain in business inventories in the fourth quarter. Most of that gain was an unintended increase in inventories due to slack retail sales in the quarter.

Imports outpaced exports in the trade sector, leading to a further worsening of the net export situation. In the government sector, gains in state and local spending partially were offset by decreases in federal spending.

Retail sales reports verify the fourth quarter GNP results. Retail sales peaked in September and fell sharply in October with the drop in automobile sales. In November and December, retail sales increased, but did not regain their September levels.

Because revisions to the advance GNP reports are the rule rather than the exception, we should take these figures with a grain of salt. The fourth quarter results were in line with our expectations. We continue to foresee 1990 as a year of muddling through.

The one source of potential strength in the 1990 economy is the housing market. So far, however, housing starts have not improved. But low interest rates should stimulate the housing market soon. We do not foresee a housing boom, even with lower interest rates, but simply a return to moderate levels. For the most part, the aging baby boomers have purchased their first homes. We foresee the annual rate of

housing starts rising to the 1.5 million units range by midyear.

Inflation remains under control. In December, there was a small run in inflation. In spite of the December pattern, the Consumer Price Index showed a gain of 4.8 percent for the year as a whole. December increases were concentrated in energy and food. These jumps appear to be temporary, being largely related to extreme cold weather on the East Coast. Freezing weather destroyed much of the Florida fruit and vegetable crop. Extreme cold in the Northeast caused a severe increase in the demand for oil when inventories were inadequate.

There has been considerable fuss lately over the idea that the Japanese are raising their own interest rates. Many analysts fear that money flows will move from the United States and toward Japan. There is

Table I
Income and Earnings in Nebraska*
($ Millions)

	Fourth Quarter 1987	First Quarter 1988	Second Quarter 1988	Third Quarter 1988	Fourth Quarter 1988	First Quarter 1989	Second Quarter 1989	Third Quarter 1989	% Change 1989:III vs. 1988:III
Income									
Total Personal Income	24,304	23,281	24,214	23,017	24,166	24,969	25,036	24,722	7.4
Nonfarm	21,054	21,312	21,633	21,951	22,507	22,685	23,085	23,514	7.1
Farm	3,250	1,969	2,582	1,066	1,659	2,284	1,951	1,207	13.2
Earnings by Industry**									
Ag. Services,									
Forestry & Fisheries	149	151	147	144	144	142	149	152	5.6
Mining	57	51	50	49	47	44	47	51	4.1
Construction	882	938	918	887	933	910	927	899	1.4
Manufacturing	2,287	2,350	2,369	2,408	2,438	2,501	2,523	2,611	8.4
Nondurable	1,135	1,149	1,180	1,197	1,206	1,216	1,271	1,331	11.2
Durable	1,152	1,201	1,189	1,211	1,231	1,286	1,253	1,280	5.7
TCU ***	1,614	1,613	1,608	1,641	1,602	1,670	1,635	1,638	-0.2
Wholesale Trade	1,174	1,211	1,237	1,269	1,295	1,315	1,345	1,362	7.3
Retail Trade	1,512	1,545	1,579	1,606	1,636	1,682	1,693	1,706	6.2
FIRE****	1,211	1,189	1,205	1,220	1,241	1,238	1,258	1,298	6.4
Services	3,370	3,334	3,460	3,586	3,837	3,674	3,817	3,996	11.4
Government	2,996	3,046	3,077	3,046	3,148	3,208	3,282	3,331	9.4
Federal, Civilian	468	473	476	480	492	508	515	524	9.2
Military	400	406	402	401	403	417	415	413	3.0
State & Local	2,128	2,167	2,199	2,166	2,253	2,283	2,352	2,394	10.5

* All data are seasonally adjusted at annual rates
** Earnings is the sum of wages and salaries, other labor income, and income earned by sole proprietors
*** Transportation, Communications, and Utilities
**** Finance, Insurance, and Real Estate
Source: Bureau of Economic Analysis, U.S. Department of Commerce

Table II
Employment in Nebraska

	Revised November 1989	Preliminary December 1990	December % Change vs. Year Ago
Place of Work			
Nonfarm	727,020	728,736	3.3
Manufacturing	100,315	101,313	3.7
Durables	48,025	48,084	1.3
Nondurables	52,290	53,229	6.0
Mining	1,821	1,612	7.6
Construction	27,651	25,209	4.5
TCU*	48,719	49,324	4.7
Trade	186,666	188,523	2.5
Wholesale	53,253	53,425	4.6
Retail	133,413	135,098	1.7
FIRE**	49,420	49,597	2.1
Services	170,180	170,560	5.3
Government	142,248	141,905	1.3
Place of Residence			
Civilian Labor Force	823,797	817,538	0.10
Unemployment Rate	2.9%	2.7%	

*Transportation, Communication, and Utilities
**Finance, Insurance, and Real Estate

Source: Nebraska Department of Labor

Table III
Price Indices

	December 1989	% Change vs. Year Ago	YTD % Change vs. Year Ago
Consumer Price Index - U* (1982-84 = 100)			
All Items	126.1	4.6	4.8
Commodities	118.2	4.1	4.7
Services	134.6	5.1	4.9
Producer Price Index (1982 = 100)			
Finished Goods	115.3	4.8	5.1
Intermediate Materials	112.0	2.3	4.7
Crude Materials	104.0	7.2	7.3
Ag Prices Received (1977 = 100)			
Nebraska	161	3.2	6.5
Crops	127	-8.0	11.5
Livestock	182	9.0	4.2
United States	148	2.1	6.5
Crops	125	-8.1	6.5
Livestock	169	9.7	6.7

U* = All urban consumers
Source: U.S. Bureau of Labor Statistics

no need for alarm. First, it is not clear that the Japanese will make major policy changes overnight. The Japanese tend to focus on the long run in their policy making. Second, even if Japanese interest rate policies are changed, the result is most likely that there will be an increase in funds retained within the country rather than a dramatic increase in inflows into their country. Overall, I expect the result of increased Japanese interest rates to have relatively little impact on our economy.

Nebraska Outlook

Third quarter personal income figures for Nebraska are presented in Table I. Total personal income grew 7.4 percent from third quarter 1988 to third quarter 1989. Nonfarm income increased 7.1 percent, while farm income gained 13.2 percent over the same period. The farm income series is erratic. The strength of the third quarter gain was generated from a low base year figure in the prior year. If year-to-date figures are used, farm income decreased 3.1 percent through the third quarter. For a series as volatile as farm income, a single quarter's data should not be viewed out of context.

In the nonfarm area, income growth was strongest from third quarter 1988 to third quarter 1989 in the biggest subcomponent—services. Service growth of 11.4 percent was followed by nondurable manufacturing growth of 11.2 percent.

As impressive as the increase in Nebraska's personal income was, it did not keep pace with the nation's increase of 8.5 percent from third quarter 1988 to third quarter 1989. The Plains was the fastest growing region in the third quarter with a jump of 9.2 percent. It is unusual for the Plains to lead the nation in income growth. The rapid increases were related to large increases in farm income precipitated by recovery from the 1988 drought. Because Nebraska did not suffer as much from the 1988 drought as did our neighboring Plains states, our farm income rebound was smaller in scope than that of other Plains states.

In contrast to flat figures for total U.S. construction in 1989, construction in Nebraska was a source of strength. Even though December figures were somewhat weak due to cold weather, the year as a

Table IV
City Business Indicators
October 1989 Percent Change from Year Ago

The State and Its Trading Centers	Employment (1)	Building Activity (2)
NEBRASKA	-0.6	19.5
Alliance	-1.6	-75.5
Beatrice	-0.6	26.3
Bellevue	-0.3	22.3
Blair	-0.3	43.0
Broken Bow	-1.2	71.0
Chadron	-3.1	61.4
Columbus	-0.4	155.6
Fairbury	-0.8	-26.2
Falls City	-1.3	8.7
Fremont	-1.0	61.8
Grand Island	-0.4	-6.1
Hastings	-0.8	-56.9
Holdrege	-0.9	502.3
Kearney	0.0	14.9
Lexington	-0.7	271.1
Lincoln	0.0	40.1
McCook	-0.6	108.4
Nebraska City	-0.7	371.8
Norfolk	-0.6	65.9
North Platte	-1.1	18.4
Ogallala	-1.0	-41.0
Omaha	-0.3	-1.2
Scottsbluff/Gering	-1.4	-37.4
Seward	-1.2	39.8
Sidney	-0.9	-66.7
South Sioux City	-1.8	-49.7
York	-1.1	-21.9

(1)As a proxy for city employment, total employment (labor force basis) for the county in which a city is located is used

(2)Building activity is the value of building permits issued as a spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Cost Index is used to adjust construction activity for price changes

Sources: Nebraska Department of Labor and reports from private and public agencies

Figure I
City Business Index
October 1989 Percent Change from Year Ago

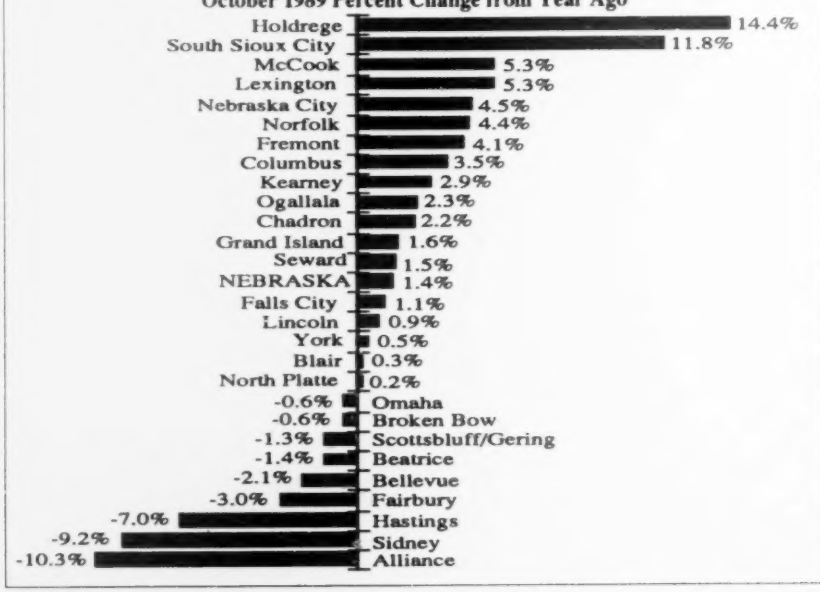
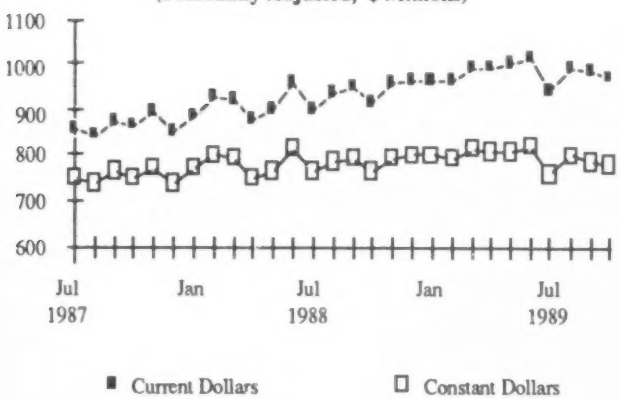


Table V
Net Taxable Retail Sales of Nebraska Regions and Cities

Region Number and City (1)	City Sales (2) October 1989 (000s)	City Sales (2) % Change vs. Year Ago	Region Sales (2) October 1989 (000s)	Region Sales (2) % Change vs. Year Ago	Region Sales (2) YTD % Change vs. Year Ago
NEBRASKA	847,271	5.9	976,273	6.6	7.2
1 Omaha	287,948	3.0	361,720	4.6	8.5
Bellevue	11,995	-2.9	*	*	*
Blair	4,316	1.0	*	*	*
2 Lincoln	113,008	2.3	132,286	4.2	4.6
3 South Sioux City	5,739	41.5	7,753	34.2	9.9
4 Nebraska City	3,758	-2.3	17,342	4.4	1.9
6 Fremont	15,182	9.3	28,423	7.3	5.5
West Point	2,789	-0.1	*	*	*
7 Falls City	2,284	6.9	8,522	2.9	-0.7
8 Seward	4,153	5.0	14,202	2.7	2.3
9 York	6,295	9.1	13,975	2.5	6.4
10 Columbus	14,006	2.0	25,789	1.9	4.8
11 Norfolk	18,406	9.2	33,324	5.4	6.3
Wayne	3,003	8.7	*	*	*
12 Grand Island	32,899	8.9	46,956	8.2	8.6
13 Hastings	13,858	-1.9	23,350	5.5	7.5
14 Beatrice	6,854	-1.3	16,119	3.2	0.8
Fairbury	2,588	1.3	*	*	*
15 Kearney	18,304	9.3	26,296	10.5	9.2
16 Lexington	5,276	2.4	15,171	6.2	6.0
17 Holdrege	4,380	18.3	7,895	12.9	6.8
18 North Platte	14,554	3.7	18,951	6.1	5.8
19 Ogallala	5,180	16.3	10,507	8.3	11.2
20 McCook	7,607	8.8	10,763	8.5	3.7
21 Sidney	3,510	-4.2	6,855	-11.6	0.2
Kimball	1,353	-15.4	*	*	*
22 Scottsbluff/Gering	16,872	7.8	23,574	5.9	8.9
23 Alliance	4,875	-2.5	12,926	2.6	1.6
Chadron	2,500	6.9	*	*	*
24 O'Neill	4,134	18.6	14,543	18.5	11.9
Valentine	2,576	8.4	*	*	*
25 Hartington	1,571	18.5	8,130	13.6	1.5
26 Broken Bow	3,281	17.9	11,241	7.5	5.6

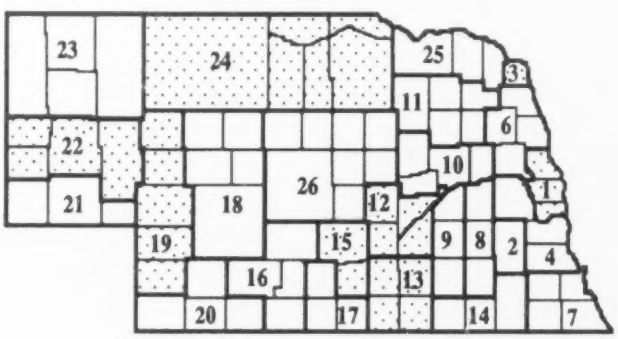
(1) See region map
(2) Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales
* Within an already designated region
Compiled from data provided by the Nebraska Department of Revenue

Figure II
Nebraska Net Taxable Retail Sales
(Seasonally Adjusted, $ Millions)



(1) The Consumer Price Index (1982-84 = 100) is used to deflate current dollars into constant dollars

Figure III
Region Sales Pattern
YTD as Percent Change from Year Ago



Shaded areas are those with sales gains above the state average. See Table V for corresponding regions and cities

whole was strong. According to F.W. Dodge, total projects increased 11.9 percent for the year. There was some weakness in nonbuilding construction, but building square footage rose 12.9 percent. The count of dwelling units under construction swelled 9.1 percent for the year.

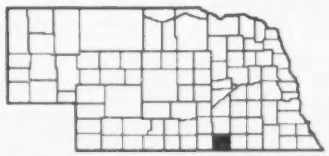
In the West North Central region of the U.S., year-to-date retail sales through November increased 3.5 percent. In contrast, retail sales in Nebraska through October showed a gain of 6.6 percent for the month versus a year ago and a 7.2 percent increase on a year-to-date basis. Nevertheless, Nebraska retail sales have slowed from their torrid pace at the end of the spring months. In Figure II, we see that October seasonally adjusted constant dollar and current dollar retail sales were below the blistering pace of May and June.

Table II reveals that nonfarm employment (jobs) increased in October 3.3 percent versus a year ago. That rate of increase is similar to those we have seen throughout the year for Nebraska jobs. Once again, the labor force failed to keep pace with the job expansion. In December, the labor force barely grew, showing a 0.1 percent increase.

The rapid expansion in jobs and a slow increase in the labor force resulted in a December unemployment rate of 2.7 percent. Nebraska's unemployment rate was below 3.0 percent for the last four months of the year. According to the U.S. Bureau of Labor Statistics (BLS), there were only three states in November that had unemployment rates below 3.0 percent: Delaware and Hawaii had rates of 2.8 percent and Nebraska had a 2.9 percent rate. Of the states that border Nebraska, Kansas and South Dakota shared the lowest levels of unemployment at 3.9 percent, while Wyoming was the highest at 5.8 percent. Of the 257 metropolitan areas reported by the BLS in November, only Raleigh-Durham, North Carolina had a lower unemployment rate than Lincoln, Nebraska (1.9 percent versus 2.0 percent).

County of the Month

Nuckolls



Nelson--County Seat

License plate prefix number: 42
Size of county: 579 square miles, ranks 45th in the state
Population: 6,200 (estimated) in 1988, a change of -7.2 percent from 1980
Median age: 36.8 years in Nuckolls County, 29.7 years in Nebraska in 1980
Per capita personal income: $13,128 in 1987, ranks 67th in the state
Net taxable retail sales ($000): $28,966 in 1988, a change of 4.7 percent from 1987; $23,810 during January-October 1989, a change of -0.4 percent from the same period one year ago
Number of business and service establishments: 199 in 1987; 63.3 percent had less than five employees
Unemployment rate: 3.2 percent in Nuckolls County, 3.6 percent in Nebraska for 1988
Nonfarm employment (1988):

	State	Nuckolls County
Wage & Salary Workers	688,146	1,723
	(percent of total)	
Manufacturing	13.8%	12.0%
Construction and Mining	3.8	2.1
TCU	6.5	4.1
Retail Trade	18.5	21.7
Wholesale Trade	7.3	9.8
FIRE	7.0	4.7
Services	23.0	21.6
Government	20.1	24.0
Total	100.0%	100.0%

Agriculture:
Number of farms: 621 in 1987, 624 in 1982
Average farm size: 541 acres in 1987
Market value of farm products sold: $45.3 million in 1987 ($73,019 average per farm)

Sources: U.S. Bureau of the Census, U.S. Bureau of Economic Analysis, Nebraska Department of Labor, Nebraska Department of Revenue

Merlin W. Erickson

Business in Nebraska

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